

# CEPAL

## Review

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# C E P A L

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# Planning in mixed market economies and the paradigms of development: problems and options

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The crisis undergone by Latin America in the 1980s has been the most serious one to occur during its process of industrial development, not only because of its intensity, but also because of the difficulties involved in designing and implementing options that might pave the way to solutions for the problems which originated it. The context of the crisis of the 1930s was entirely different: the region had only just begun its industrialization process, and the main body of problems at the time could not be attributed to industrial activity. Moreover, the self-contained nature of the economy insulated a large part of the population from the principal negative effects of the interruption of international trade and credit flows.

The author contends that the reason for the intensity of the present crisis resides not only in financial and external debt problems (which are basically a result of the crisis) but also in the exhaustion of the pattern of industrial growth which ensured the economic dynamism of most of the countries in the region for nearly four decades. Three factors help account for the fact that —unlike what occurred in instances of cyclical rather than structural depletion of the pattern of growth— a solution to the crisis has not been found with relative ease. These factors are the greater integration of today's unstable and uncertain international economy; the crisis of the economic paradigms of both the neo-classical/neo-Keynesian synthesis, as it is called, and Latin American structuralism; and the technical, political and ideological problems confronting the present planning scheme in the region. The author concludes the discussion with an outline of some ideas about how to deal with the last two factors mentioned above.

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## I

### Greater integration in an unstable and uncertain world economy

In the present crisis, the coexistence of Latin American economies which are ostensibly more open than they were during the industrialization period is combined with a context of international unrest. This context should be understood as the sum of highly uncertain economic, political and ideologic environments in which the rate of change has accelerated. The main areas of turbulence are to be found in the spheres of industrial reconversion, the advent of the third technological revolution, and changes in the structure of sectoral, entrepreneurial and even national hegemonies and domains. The Latin American countries face this turbulence from a position which has been relatively weakened not only by increased linkages with the centre of the system, but also by the disappearance or sharp reduction of the degree of freedom that once allowed for the use of such instruments as the foreign debt or primary exports (which for a short period enjoyed a favourable evolution in their terms of trade).

Therefore, the first conclusion to be drawn is that the intensity of the crisis and its duration are a function of the truncated but wider-ranging linkage of Latin America and the world economy within a context characterized by the exhaustion of the resource reserves that once permitted a certain freedom of action.

## II

### The crisis of economic paradigms

The difficulty of designing policies capable of putting an end to the crisis has been increased by the present crisis in the paradigms of economic policy and analysis.

### 1. *The crisis of the neo-classical/neo-Keynesian synthesis*

The economic policy encouraged by the neo-classical/neo-Keynesian synthesis had positive results in terms of production and employment for more than two decades during the postwar period. However, in the early 1970s its propositions started to lose explicative strength in a context which was beginning to be characterized by the conjunction of stagnation and inflation in the industrialized countries themselves. Initially, within the framework of short-term analysis, attempts were made to rationalize the changes in economic performance in terms of displacements of the Phillips curve. However, in the course of the decade, dissenting criticism became sharper with the assertion, first, of the existence of a vertical Phillips curve in the long term and, later, of a similar one even in the short term. The elimination of the possibility of reducing the unemployment rate by accepting increases in the rate of inflation led to the incapacity of neo-classical/neo-Keynesian analysis to deal with the issue of short-term economic equilibrium. As for the development model of this paradigm, its limited framework and unrealistic assumptions made it impossible to arrive at an explanation of the reasons for the interruption in the growth of productivity registered since the early 1970s. The above-mentioned limitations were compounded by the fact that the neo-classical/neo-Keynesian synthesis presented on-going problems which would gradually reduce its capacity to explain reality. In particular, this paradigm could not fully incorporate the presence of oligopolistic markets or provide a realistic reflection of the operation of its agents. These elements were considered merely as factors of production having no role or will at the political level; at the same time, the State was represented as an exogenous actor which guaranteed a level of aggregate demand but which did not take part in other equally relevant dimensions of economic activity.

The crisis in the paradigm of the neo-classical/neo-Keynesian synthesis is mainly due to the limitations of Keynesian macroeconomics and its policy of demand management in explaining the problem of stagflation and to the inability of the neo-classical theory of growth or long-term macroeconomics to explain the trend

towards low productivity and economic stagnation observed in the economic system after 1970.

### 2. *The crisis of ECLAC's structuralism*

Over a span of three decades, the industrialization of Latin America was supported by an economic theory closely based on the reality of the region. However, this theory was robbed of its force when it proved unable to meet the challenges posed by the more advanced levels of industrialization and modernization which the very same theory had helped to generate. When the model of import substitution was exhausted, ECLAC structuralism was unable to develop a scheme for the integration of the countries of the region and the world economy that was efficient and effective enough to guarantee stable growth. The contributions made in the 1970s centered on the description of processes of productive, commercial and financial dependence which led theoretical discourse into a *cul-de-sac*.

When the problems of short-term disequilibrium became more acute, the structuralist paradigm revealed another of its weak points: its incapacity to relate the policies of adjustment and development. This incapacity was partly due to a failure to pay sufficient attention to the problems of effective demand, the structure of relative prices and monetary policy. Ironically, this ultimately resulted in a situation similar to the one suggested by the paradigm's detractors: the non-utilization of monetary policy —due to the lack, in this case, of theoretical developments with an operative content.

Although ECLAC structuralism was capable of analysing concrete problems which were of crucial importance to the development of the countries of the region, the "rebellion" that it implied was cut short because it was not able to formulate a new model of growth that could be integrated into a corpus of short-term policies.

The crisis of these paradigms has led to two negative situations: on the one hand, a return to theories that had been discarded as far back as the early 1930s; and on the other, the proliferation of short-lived economic "fashions" (supply-side approaches, rational expectations, etc.) which have tended to be dogmatic in their disqualification of such guiding principles of industrial development as have not promptly adapted to these novelties.

The re-emergence of monetarism in the 1970s, in response to the crisis of these paradigms, was an anachronism whose main *raison d'être* was the overestimation of the importance of inflation as an economic problem and the diagnosis that economic interventionism on the part of the State (excess spending, regulation, red-tape, etc.) was the cause of all evil. Its proposals for relying exclusively on the free operation of the markets, for fully integrating the national economies of the region into the world market and for the disappearance of the State as an economic agent were paradoxical, particularly in view of the characteristics of the international situation at the time: instability, the extreme variability of key prices and interest rates, the prospect of a crisis in the financial system due to deficits and to the absorption of world savings by the United States, neo-protectionism, a loss of capacity on the part of international economic institutions such as GATT, etc.

Even during a period of steady growth in the world economy, as was the case in the 1960s, it is doubtful that a proposal for mechanical and

indiscriminate integration could have been successful. In the 1970s and 1980s, the results could not have been other than what the world has seen.

The vigour of economic fashions was not eliminated by the failure of monetarism, despite the high cost that its application involved in terms of unemployment and the destruction of productive plants in a number of countries of the region. However, some misconceptions prevailed. Not the least serious of them was the assumption that financial accounting entities can demand the simultaneous correction of internal and external *disequilibria*. Latin America has repeatedly seen its development process arrested by its external relations. The structural nature of the trade and current account deficits has been and continues to be the main obstacle to development. The internal disequilibrium, which at the level of accounting goes hand in hand with the external imbalance, does not have the same importance, and its solution necessarily involves that of the external structural disequilibrium.

### III

## Limitations and potentials of the present planning scheme in Latin America

Since the early 1960s, planning has been the tool relied upon to ensure the continuity of and a certain degree of equilibrium in, the process of industrial development. For a long time, it yielded positive results; nonetheless, during the past decade it has clearly failed to live up to expectations. Technical, political and ideological problems have prevented planning philosophy and praxis from keeping pace with reality since the early 1980s. One of the fashions has been to assume that its failure to adapt is due to the obsolescence of planning as an instrument *per se*. The truth of the matter is otherwise: strategic planning is still the main instrument available to the governments of the region in their efforts to overcome the shortcomings affecting these countries. However, planning must reflect the changes which have occurred in the economic, political and ideological subsystems of what are,

now larger and more complex Latin American societies.

If planning is to continue to be regarded as a valid instrument, then, its flaws must be diagnosed and new ideas for increasing its efficiency must be put forward (see appendix).

#### 1. *Technical problems*

##### a) *The lack of an approach which includes the three levels of planning*

Planning experiences, as well as training efforts in this connection, have tended to overlook the existence of three levels of planning that must be represented: macroeconomic, macrosectoral and strategic branch or project planning. The absence of such an integral perspective has produced specialists and institutions

that, at the most, consider two of these three levels. This is another manifestation of the long-standing conflict between the macro and micro levels of economic theory. The result has been that strategic investment projects have been based more on the prevailing funding conditions of development credit institutions than on industrialization strategies. The lack of an integral view has also prevented the materialization of policies advocating the integration of production chains. It appears to be more and more necessary to train planners to have a broad outlook who, without prejudice to specialization, can work at all three levels.

b) *The failure to develop new policy instruments and implementation capabilities*

Planning methodology has tended towards the use of a series of policy instruments which are considered as "givens". No stress has been placed on the capability of generating new instruments for the independent achievement of additional objectives as they are posed by economic policy. Tinbergen demonstrated that, given a multiple-target function, an independent instrument is required to meet each one of them. In the developing countries, economic policy must meet more targets, and yet has fewer independent instruments for doing so, than in the industrialized countries.

The social situation is such that economic policy must be directed towards reducing inflation, eliminating the external disequilibrium, generating productive jobs, increasing the range of mechanisms for satisfying basic needs, increasing real wages, achieving a greater regional equilibrium, etc. In the face of so many challenges, policy instruments may have negative indirect effects on some of them. Thus, an increase in the internal interest rate designed to discourage capital flight necessarily reduces productive investment; a devaluation of the rate of exchange aimed at increasing exports must necessarily result in stronger inflationary pressures. The need to generate new independent instruments is an urgent one, and the recent experience of a number of countries of the region has demonstrated the potential creativity available in this respect.

Training in the field of planning has tended to stress the areas of design, follow-up and evaluation.

Programme implementation and operations have been given short shift and little consideration has been given to techniques for ensuring their effectiveness. Planning, as it is actually practised in the region, has shown it to be relatively simple to design technically sound programmes which, nevertheless, run up against insurmountable obstacles the moment they are put into practice. The relationship between planning sectors and operational sectors in government has by no means reached a level of effective co-ordination. Efforts to achieve such co-ordination would, no doubt, be among the most productive ones that could be undertaken.

c) *The lack of selectivity in the scope of planning*

The State neither can nor should forecast and plan the whole of economic reality. In the mixed market economies of Latin America, the integral nature of planning should be accompanied by strict selectivity. There are activities in which the market is relatively efficient in its allocation of resources, and there is no reason why the State should make them an object of planning. There are others in which indirect intervention via the support and encouragement of private initiative or indirect market regulation are sufficient. There are always other cases, however, in which the need for direct intervention may be unavoidable, at least in the initial stage of investment and enterprise. It will be necessary, therefore, to combine selectivity in planning with a clear awareness of the fact that it should only be compulsory for the public sector and the entities that belong to it, whereas, with the remaining sectors, the relationship should be one of inducement and consensus. This approach has been fully adopted by the National System of Democratic Planning of Mexico and is compatible with the existence of mixed market economies, open societies and democratic multi-party political systems.

d) *The rigidity and inflexibility of plans and programmes*

The planning philosophy developed in the region was conceived during periods of growth and relative stability. This led to an emphasis on the coherence and solidity of plans and pro-

grammes, rather than on flexibility. The turbulence of present-day contexts and the uncertainty that this implies make it necessary to place greater stress on methodologies for producing flexible and contingent plans. External vulnerability is a feature of all the countries of the region, and it is easy to imagine scenarios in which the relative situation of many Latin American countries would be radically transformed if only two variables, such as the price of oil and the international interest rate, were to change. Flexibility in planning should be increased through the use of semi-automatic assessment and follow-up mechanisms that provide prompt feedback for the decision-making framework.

## 2. Political problems

### a) *A limited view of the role of economic agents*

The emphasis put on the development of planning techniques has not been misplaced. Nevertheless, the absence of a political perspective has caused the role that social agents play in industrialization to be neglected. In some cases, the structure of agents has been taken as a given, without going into whether it is adequate or efficient; in other cases, it has been thought that growth alone would resolve the conflicts and inconsistencies of this structure. Today, however, a consideration of the roles played by economic agents and of the relationship of the State to each one of them, including public entrepreneurs, is unavoidable. The Mexican experience attests to the need for a clear scheme for participation and consensus at all planning stages: design, implementation, evaluation and follow-up. An effective programme must necessarily be a programme *of* the agents, rather than a programme *for* them.

The National Programme for Industrial Development and Foreign Trade for 1984-1988 was the result of over 120 consultative meetings with entrepreneurs, labour movements, legislators and intellectuals concerned with the issues of industrialization. The design stage of the Mexican programme did not put an end to consultation; the same decree through which the programme became effective created the Consultative Commission of Industrial Planning, whose function is to monitor and actively partic-

ipate in the design of programmes at the branch level, to evaluate policies and to provide feedback for their necessary updating. This Commission is formed not only by the ministries directly linked to industrial development but also by the main chambers of commerce and industry, and the labour Congress, which is the leading institution of the organized labour movement in the country.

### b) *A misperception of the State-agents relationship*

The ideological myth that the form of ownership (public or private) is the main determinant of how markets operate has impeded consensus among agents and has hindered efficient State guidance. In fact, size, technology, product differentiation and access barriers, i.e., the problems of industrial reconversion, have a stronger impact on the efficiency and competitiveness of production activities. The rationalization of State participation in the economy has been a necessary instrument for overcoming the false public ownership/private ownership dilemma. Over the last four years, Mexico has carried out an extensive restructuring of its para-State sector which has consolidated its mixed market-economy system and concentrated public efforts on strategic and priority areas of development, while leaving the market and private and social agents to manage most aspects of the national economy. The State's role in providing orientation and guidance has been strengthened as it has detached itself from areas that could be efficiently handled by other sectors. The National System of Democratic Planning has incorporated an indicative policy on participation by agents at the level of industrial branches, and this has served as the basic orientation for the rationalization effort which has been undertaken. This policy has few precedents in the planning efforts of the region and has been an object of attention in analyses of this issue.

## 3. Ideological shortcomings

### a) *The failure to consider the "national purpose"*

Factors relating to ideological structure have almost always been regarded as exogenous elements in planning. Today, however, the first



step in designing a plan that would be expected to steer governmental action throughout several administrations is to reach a basic accord at the ideological level: an agreement as to the nature of the national purpose. The lack of continuity in policies has often been attributed to the changes of administrations which are an integral part of democratic governments. The authoritarianism which prevailed in many countries in the past decade, however, has shown that the real reason for the instability of policies is to be found in the lack of a long-term national consensus. A further cause has been the tendency to neglect issues pertaining to the relationships among productive agents.

Planning in Mexico, however, is based on an effort to arrive at a clear understanding of the national purpose which grew out of the 1910 revolution and which is embodied in an open society with a democratic political system and a mixed market economy. The relationship among the economic agents which foster co-ordination and participation is one of co-operation rather than conflict. Rivalry and struggle—which may be healthy among enter-

prises, but not among sectors of society—offer no chance of developing effective planning.

In short, in order to promote and support industrial development by reducing uncertainty and correcting the shortcomings of the market, the proposal presented here with a view to working towards a new approach to planning can be summed up as follows:

i) An integral perspective at three levels: macroeconomic, macrosectoral and branch or project;

ii) Selectivity as regards strategic or priority areas, leaving other sectors in charge of the remaining activities within a framework of ongoing and intensive support for productive investment;

iii) Consultation with, and the participation of, the agents concerned in design, implementation, follow-up and evaluation;

iv) Inducement and consensus in execution;

v) Rationalization of State participation;

vi) Insertion within a consensual "national purpose" which incorporates the demands of democracy, multi-party participation and a mixed economy.

## IV

### Towards a new economic paradigm

The ideological level also has its place in the economy. The construction of a new paradigm is part of the concrete effort to organizing national projects. Such a paradigm should be built upon the development of three foundation stones, whose origins are Latin American structuralist thought, the original Keynesian macroeconomics of disequilibrium, and the political-economy analyses of the State and participation by agents in economic activity. In other words, we must work towards a synthesis of neo-structuralism, post-Keynesianism and political economy approaches. The updating of these perspectives should be the product, not of economic fashion, but of the experience, mistakes and successes of the economists and governments of the region.

In forming this synthesis, neo-structuralism's emphasis on the factors that

determine productive supply should be preserved, but it must be broadened to incorporate the short-term problems linked to the structure of relative prices, the level of aggregate demand and potentialities of a "non-monetaristic" monetary policy. The post-Keynesian analyses will contribute to an understanding of macroeconomic disequilibria and should be complemented with fundamental aspects not adequately developed by Keynes, i.e., income distribution and the "socialization" of investments, understood as the refinement of a mixed market economy. Finally, the political economy approaches' consideration of the active political role of economic agents should be retained in conjunction with an endogenous focus on the role of the State. The State must be considered in its roles as promoter of private investment,

entrepreneur, investor, planner and regulator, and negotiator *vis-h-vis* direct foreign investment.

The complexity of the task is evident. However, the need for a theoretical framework capable of steering economic policy in times such as these call for a concerted effort in this regard.

A multidisciplinary approach is essential to the construction of the new paradigm. It is no longer possible to develop economic models in

which social, cultural and ideological factors are considered as exogenous data. The analysis of the economic subsystem should form part of the development of the other subsystems of the social complex. The work of the economist must, of necessity, tend to broaden its scope, to coordinate with the efforts of other specialists and to culminate in social planning characterized by a high degree of selectivity and an integral focus in the strategic areas which are the object of policy decisions.

## Appendix

## PLANNING PROBLEMS AND ALTERNATIVES IN LATIN AMERICA

**Problems****Solutions**1. *Technical*

- |  |  |
|--|--|
| — Fragmented perspective                     | — Planning at three levels: macroeconomic, macrosectoral and strategic branch or project   |
| — Fixed and limited set of instruments       | — Development of new independent instruments   |
| — Reduced implementation capability          | — Emphasis of planner-training on implementation and operation of plans and programmes   |
| — Attempting to embrace the whole of reality | — Selectivity: differentiating between areas of free market operations, indirect intervention (promotion), and direct intervention (the State as an investor and entrepreneur) |
| — Rigidity and inflexibility of plans        | — Contingency plans and programmes providing for prompt feedback   |

2. *Policy*

- |  |  |
|--|--|
| — Superficial consideration of agents                | — Participation in design and co-ordination and inducement in operations   |
| — Faulty perception of the State-agents relationship | — Indicative policy of participation at the branch level; rationalization of the State presence in economic activity |

3. *Ideological*

- |   |  |
|---|--|
| — Exogenous consideration of the ideological framework  | — Planning based on a "national purpose" of consensus, democracy, a multi-party system and a mixed market economy under the direction of the State |
| — Crisis of the neo-classical/neo-Keynesian and ECLAC structuralist paradigms and re-emergence of neo-liberal monetarism which is, by definition, opposed to State planning | Development of a new paradigm based on the contributions of neostructuralism, post-Keynesianism and political economy approaches                   |